HOUSING MARKET OUTLOOK
Edmonton CMA

CANADA MORTGAGE AND HOUSING CORPORATION

Date Released: Spring 2010

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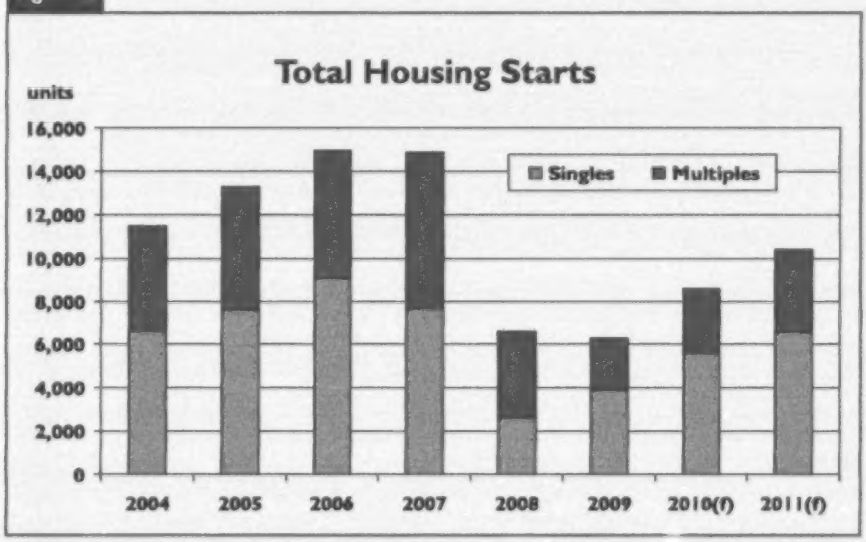
NEW HOME MARKET

Housing Starts Improve into 2011

Following three successive years of decline, new housing activity across Greater Edmonton will rise to 8,600 units this year and continue to improve in 2011 as the economic recovery gains traction. Increased net migration, a return to job creation, falling unemployment and improved income growth will bolster demand for new housing throughout the forecast period. In 2009, total housing starts fell by 4.5 per cent to 6,317 units, but much of the downswing occurred during the early months of the year. Activity levels were much improved by the fourth quarter and this trend continued into the first quarter of 2010. Much of this year's increase will be led by single-detached builders, with multi-family activity gaining more momentum in 2011.

Figure 1



Source: CMHC, CMHC Forecast (f)

1 The forecasts included in this document are based on information available as of April 23, 2010.

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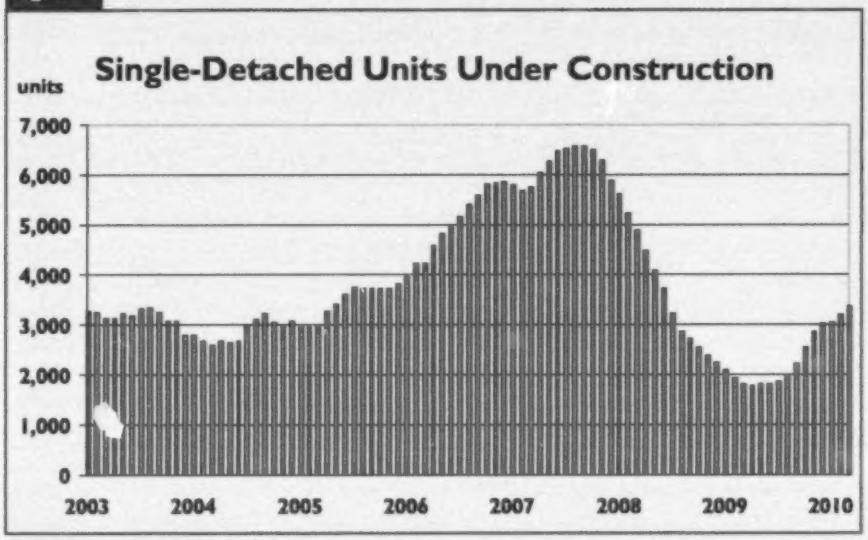
Figure 2



Source: CMHC, Mar. 2010

Single-Detached Starts on the Rebound

Single-detached home builders enjoyed a strong resurgence in activity during the second half of 2009 and this has carried over into the current year. Following a 49 per cent increase in 2009, single-detached starts will reach 5,600 units this year, representing a gain of 44 per cent. Inventories were drastically reduced over the winter and production has been ramping up since last fall to bring new product to market for the important spring selling season. Price gains in the existing market will also bolster trade-up activity, supporting additional demand for new units.

While the economy is forecast to strengthen in 2011, the rebound in new single-detached housing will begin to ease in response to higher prices and rising mortgage rates. Nonetheless, single-detached starts should still approach the 6,600 unit mark in 2011, representing the best year since 2007.

Single-detached supply levels (inventories plus units under construction) decreased throughout most of 2009, but turned the corner in December. Supply increased month-over-month during the first quarter due to the rising tally of units under construction. Using a 12-month average absorption rate near 320 units per month, the March supply of 3,760 units appears more than adequate to meet existing demand. However, absorption rates have been suppressed over the past year by very low completion levels. With units under construction up by 85 per cent over a year prior, completions will begin to ramp up in the months ahead. Despite spec home inventories close to record low levels at the end of March, we look for absorptions to move higher in the coming months. Some inventory replenishment is also anticipated from recent lows. At 402 units in March, the number of singles in inventory was 57 per cent lower than the previous year.

New House Price Gains Halted

Absorbed prices for new single-detached homes have been trending downward in recent months, representing sale price reductions that occurred in many cases when construction began earlier in 2009. With the Statistics Canada New

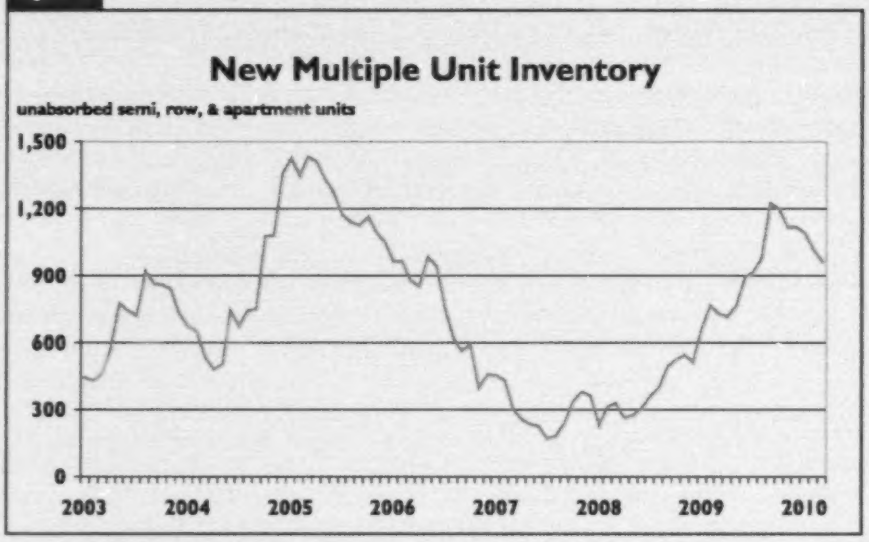
Table 1
New Single-Detached Absorptions by Area
January - December (% chg 2008/2009)

	Absorptions			Average Price ($)		
	2008	2009	%chg	2008	2009	%chg
North Central	74	90	21.6	566,023	787,656	39.2
Northeast	333	147	-55.9	463,627	469,813	1.3
Northwest	477	234	-50.9	456,585	479,652	5.1
South Central	51	57	11.8	753,898	771,398	2.3
Southeast	669	478	-28.6	473,480	474,547	0.2
Southwest	947	439	-53.6	590,261	646,213	9.5
West	442	259	-41.4	570,189	531,330	-6.8
Total Edmonton City	**2,993**	**1,704**	**-43.1**	**527,919**	**550,797**	**4.3**
Fort Saskatchewan City	214	160	-25.2	482,720	422,807	-12.4
Leduc City	374	246	-34.2	458,995	436,321	-4.9
Parkland County	229	237	3.5	507,683	523,330	3.1
Spruce Grove City	437	220	-49.7	386,481	396,846	2.7
St. Albert City	237	137	-42.2	642,326	592,116	-7.8
Stony Plain Town	155	108	-30.3	344,859	373,936	8.4
Strathcona County	584	371	-36.5	633,571	735,991	16.2
Total Rural Municipalities	**3,083**	**1,992**	**-35.4**	**496,545**	**524,169**	**5.6**
Grand Total	**6,076**	**3,696**	**-39.2**	**511,989**	**536,516**	**4.8**

Source: CMHC

House Price Index (NHPI) still down year-over-year in the early months of 2010, absorbed prices will not be increasing until later this year. Given the rebound in starts, the NHPI has been improving on a month-over-month basis and should be back into positive territory by the second quarter. The average absorbed single-detached price will drop by almost 11 per cent in 2010 to $485,000 before increasing to around $505,000 on average in 2011. Upward pressure on new home prices will come from higher land development costs, moderate gains in building material prices and construction wage rates.

Figure 3



Source: CMHC, Mar. 2010

Multiple Dwelling Starts Improve This Year

Multiple dwelling starts in 2009 decreased by 40 per cent from the previous year across the Alberta Capital region due to weakened demand, rising inventories, and competition from moderately-priced resale units. Construction levels have experienced modest improvements in recent months but the recovery has not been consistent across the industry. Medium-density semi-detached and townhouse builders have increased production so far this year, but the overall level of multi-family construction is being constrained by low apartment starts. Total activity in this sector should reach 3,000 units this year, representing a gain of 24 per cent from 2009.

In 2011, multiple starts will improve to 3,800 units as inventory reductions continue and improved pre-sales help to encourage more apartment production. Presales for pending projects have been difficult to achieve in the past year due to the elevated supply levels in many parts of the CMA. This environment will improve in 2011 as existing new projects reach completion and become absorbed. Some previously stalled-out apartment and townhouse projects will also commence construction this year. The reintroduction of these frozen projects will temper the number of starts going forward since many were counted as starts previously and represent current supply. However, once these buildings finish construction and begin to sell off, it will set the stage for new developments to begin actively marketing to prospective buyers.

Multi-family supply levels have been trending downward this year, with reduced starts in 2009 causing completions to pull back in recent months. Absorptions, meanwhile, have held up reasonably well during the economic slowdown and this helped inventories turn the corner in late 2009. While still elevated, the current supply is localized in some respects, with high-rise concrete apartments in good supply in the downtown while medium-rise product predominates in the west, southwest and northeast parts of Edmonton.

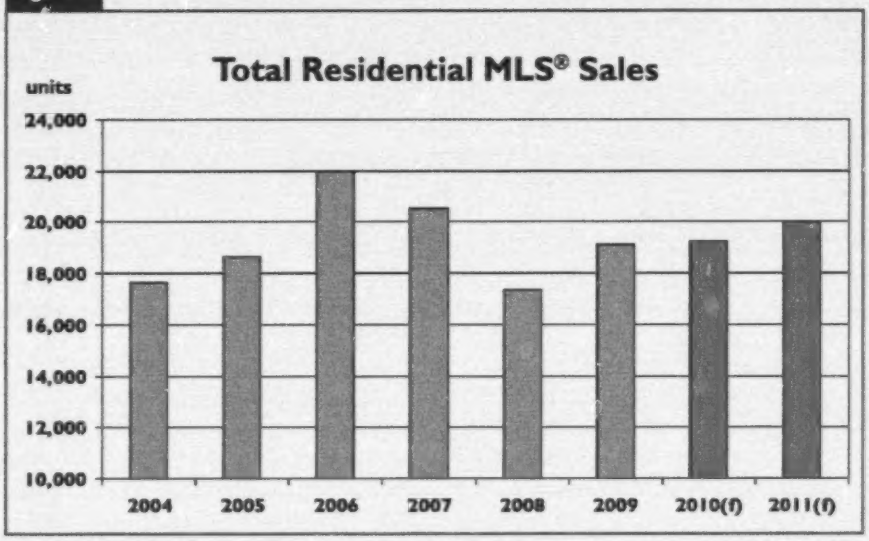
Going forward, these inventories will be gradually reduced, helping to spur presales in pending projects and bolster construction levels as the year progresses. The downtrend in apartment construction costs in the past year and half should improve the viability of new developments. However, firming input prices and higher financing costs will begin to offset some of these gains going into 2011.

RESALE MARKET

Existing Home Sales to Recover in 2010

Resale home activity experienced a solid rebound in the second half of 2009 and will stay on a firm footing throughout 2010 thanks to improving economic conditions across the Capital region. Total sales should reach 19,250 units this year, representing a slight gain over 2009. Continued improvements are expected in 2011 as the economic recovery takes hold, with MLS® sales forecast to reach 20,000 units, the best performance since 2007.

Figure 4



Source: RAE, CMHC Forecast (f)

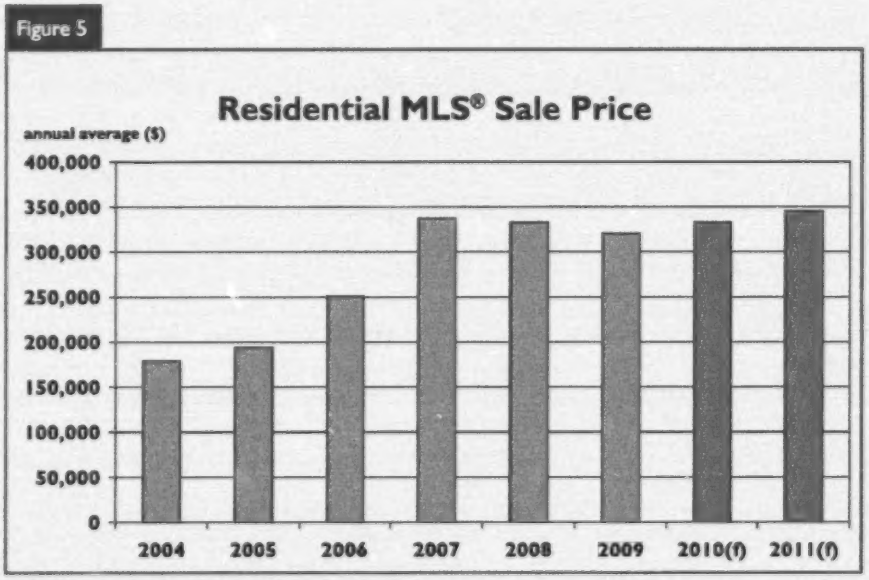
Residential sales reported by the Realtors Association of Edmonton (RAE) increased by 22 per cent year-over-year in the first quarter of 2010 but the gap over last year's performance will narrow in the months ahead. This time last year, sales on the MLS® were down by 22 per cent from the same three month period in 2008, as consumers faced a steady stream of bad news about the global economy and worrisome prospects locally. However, sales improved dramatically as the year progressed, partly due to demand that was pent up during the previous sales slump but also due to buyers taking advantage of low mortgage rates before they increased. An improving economic outlook should sustain demand for resale homes in the months ahead. However, factors such as tightened mortgage qualifications and higher carrying costs associated with rising prices and increased mortgage rates will moderate the gains over 2009 as the year progresses.

Supply levels on the MLS® were down year-over-year at the end of the first quarter but a strong improvement in new listings during March helped to bolster active listings from the beginning of the year. The sales-to-active listings ratio stood at 23 per cent in March, comfortably in the balanced market range. CMHC expects balanced market conditions to prevail throughout 2010. Improved supplies of lower-density new units and a continued healthy inventory of new condominium apartments will help to promote trade-up activity and encourage existing homeowners to put their units on the market. A return to price growth will also promote move-up activity among homeowners who were discouraged by the equity erosion that occurred during the 2007 and 2008 buyers' markets.

Firming Resale Home Prices in 2010

Resale home prices began to firm-up during the second half of 2009 as inventories moved lower and demand improved. Despite this reversal, prices fell on an annual basis by 3.7 per cent to an average of $320,392. Monthly average prices have been trending upward in 2010 due to a balanced market and increased trade-up activity. The average residential resale price rose by 5.5 per cent year-over-year in the first quarter to $327,793. Increased sales at higher price points, notably for singles over $500,000 and condos over $300,000, are indicative of increased move-up buyer

Figure 5



Source: RAE, CMHC Forecast (f)

Table 2
MLS® Sales - Single-Detached Units
January - December (% chg 2008/2009)

	Sales			Average Price ($)		
	2008	2009	%chg	2008	2009	%chg
Northwest	366	404	10.4	330,534	314,297	-4.9
North Central	1,498	1,728	15.4	360,032	345,767	-4.0
Northeast	428	461	7.7	305,830	285,744	-6.6
Central	306	336	9.8	267,369	242,154	-9.4
West	1,073	1,260	17.4	424,021	422,326	-0.4
Southwest	1,475	1,633	10.7	475,499	468,627	-1.4
Southeast	1,607	1,735	8.0	362,403	346,015	-4.5
St. Albert	794	888	11.8	440,849	414,168	-6.1
Sherwood Park	914	976	6.8	423,143	405,576	-4.2
Leduc	308	343	11.4	352,979	341,007	-3.4
Spruce Grove	430	425	-1.2	364,928	345,632	-5.3
Stony Plain	181	257	42.0	367,721	332,926	-9.5
Ft. Saskatchewan	244	266	9.0	383,829	365,869	-4.7
All RAE areas	**11,284**	**12,367**	**9.6**	**375,952**	**364,032**	**-3.2**

Source: Realtors Assoc. of Edmonton

activity. Stronger competition among entry-level buyers for moderately-priced units has also caused some compositional shift in sales by price range.

CMHC's outlook calls for continued modest month-over-month gains. This will translate into an average residential resale price (MLS®) of close to $333,000 this year, an increase of 3.9 per cent from the 2009 annual average and similar to the levels reported in 2008. Next year, the average resale home price is expected to rise another 3.6 per cent to a record $345,000.

Rising mortgage rates both this year and in 2011 will put upward pressure on carrying costs. Affordability improved across Greater Edmonton in 2008 and 2009 due to a combination of lower prices and falling mortgage rates. As rising mortgage rates magnify price gains going forward, the more stringent qualifying conditions that began in April will put a moderate damper on demand. This should also help to contain price gains, as entry-level buyers are encouraged to consider more moderately-priced dwellings.

RENTAL MARKET

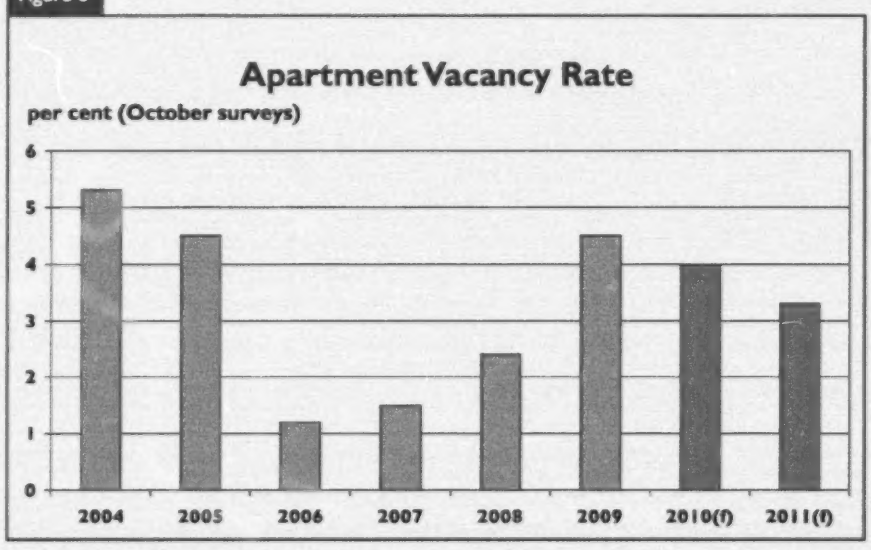
Vacancies Turn the Corner in 2010

Apartment vacancies increased across Metro Edmonton during 2009 as landlords faced competition from investor-owned condominiums and reduced demand brought on by fewer newcomers and rising unemployment. Vacancies should begin to subside this year as multi-unit completions continue to trend downward and demand is bolstered by job creation and improved in-migration.

CMHC's fall 2010 Rental Market Survey is expected to reveal a vacancy rate of close to four per cent, down from 4.5 per cent a year prior. Apartment vacancies will remain on the downtrend in 2011 as the labour market continues to improve along with a growing influx of new arrivals from outside the region.

Rental unit completions will remain low in 2010 because of the relatively modest number of units under construction this spring. Rental starts are not expected to increase notably in the months ahead due to the continued gap between the cost of construction and market rents for newer apartment and townhouse units. While new condominium completions will provide some new

Figure 6



Source: CMHC, CMHC Forecast (f)

rental supply, these volumes will fall short of the expected increase in demand.

Rising prices for condominiums may also pull some existing condos out of the rental market this year. Hundreds of new units were moved into the rental pool in the past two years when the market softened and investors decided to rent out units rather than sell at a loss in an oversupplied market. As new condo inventories trend downward this year, some inventors will be tempted to test the resale market and attempt to recoup their equity. Furthermore, some existing rentals that were slated for condo conversion during the strong sellers' market of 2006-07 may again become destined for the resale homeowner market. This would further reduce rental supply and cut vacancy rates.

Rent Increases Return in 2011 as Market Tightens

As vacancies begin to decrease this year, Edmonton's landlords will slowly start to reverse the rent reductions that were put in place by some management firms during the second half of 2009. However, with vacancies averaging above the four per cent level this year, our October survey will not show any gains in average rent levels until 2011.

In October 2009, an average two-bedroom apartment rented for $1,015, representing a $19 per month decrease from October 2008. In the coming October 2010 survey, look for an average two-bedroom rent of close to $1,000, a moderate decrease from last year's level. Rent increases will return in 2011 as vacancies move below 3.5 per cent by the fall. A typical two-bedroom unit will rent for close to $1,030 in October of next year, representing a $30 per month average increase and coming close to the levels reported in the fall of 2008.

The use of incentives to entice new tenants or retain existing occupants increased in recent years as competition heated up among property owners. In October 2009, close to 23 per cent of Edmonton's rental buildings offered some type of incentive, the highest level since 2004. With vacancies moving lower this year, we expect the number of buildings offering incentives to move downward.

MORTGAGE RATE OUTLOOK

The Bank of Canada cut the Target for the Overnight Rate in the early months of 2009. The rate was 1.50 per cent at the start of 2009 and has since fallen to 0.25 per cent. Looking ahead, we expect that short-term interest rates will begin to rise in the second half of 2010.

With the overnight rate expected to increase in the coming months, mortgage rates have begun to rise. According to CMHC's base case scenario, posted mortgage rates will gradually increase throughout the course of 2010, but will do so at a slow pace. For 2010, the one-year posted mortgage rate is assumed to be in the 3.6-4.8 per cent range, while three and five-year posted mortgage rates are forecast to be in the 4.2-6.7 per cent range. For 2011, the one-year posted mortgage rate is assumed be in the 5.0-6.0 per cent range, while three and five-year posted mortgage rates are forecast to be in the 5.6-7.2 per cent range.

Rates could, however, increase at a faster pace if the economy recovers more quickly than presently anticipated. Conversely, rate increases could be more muted if the economic recovery is more modest in nature.

ECONOMIC OVERVIEW

Economic Growth Returns in 2010

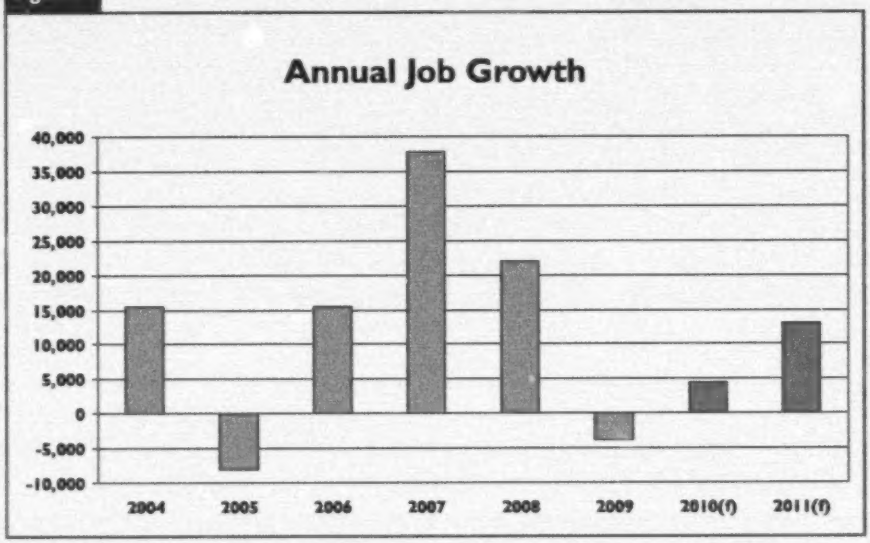
The economic outlook for the Edmonton region continues to improve along with the fortunes of Alberta's oil sector. World oil prices have rebounded from recessionary lows which casts a favourable light on the economic prospects for northern Alberta. Some of the previously delayed or shelved oil sands projects have begun to come to life and this will bolster the Edmonton region's manufacturing sector. However, natural gas prices in North America remain suppressed this spring, and will provide little comfort to the region's beleaguered drilling industry.

Governments continue to support infrastructure spending around the region in areas such as the transportation network, education and health care facilities. However, some municipal infrastructure projects could be scaled back or delayed in the coming year by recently announced cuts in provincial construction grants. Data issued by the city of Edmonton for the first quarter show a 34 per cent increase in the total value of building permits issued compared with the first three months of 2009. Much of this year's rebound has come from residential and institutional activity. Industrial developments should improve going forward although new office construction will weaken due to higher vacancy rates and an abundant supply of new downtown floor space currently underway.

While average weekly earnings have softened in recent months, stronger income growth is expected going forward as the unemployment rate retreats from its peak in October of last year. Job losses in 2009 amounted to a net annual loss of 3,850 positions, representing a decrease of 0.6 per cent. These reductions occurred in the second half of 2009 and year-over-year improvements will not begin in earnest until the second quarter of 2010. CMHC is forecasting a modest improvement this year of close to 4,500 jobs or 0.7 per cent over 2009. Employment growth will improve in the coming year with average gains expected to reach 1.6 per cent. Unemployment in 2010 will remain close to 2009 levels on an annual average basis due to job losses at the beginning of the year and stronger growth in the labour force. The main difference this year is that the unemployment rate should begin to trend downward during the second quarter, unlike 2009 when unemployment rose throughout the second half of the year.

One downside risk to the outlook surrounds the Alberta government's fiscal situation in the year ahead. A Canadian dollar at parity with the US dollar has negative implications for government coffers. Since oil is priced in US dollars, a rising Canadian dollar impacts the government's royalty earnings. Similarly, chronically weak natural gas prices will also restrain the provincial government's revenues from the energy sector. Since the provincial government plays a major roll in Edmonton's economy, the prospects of further fiscal restraint could slow the anticipated recovery.

Figure 7



Source: Statistics Canada, CMHC Forecast (f)

Higher Net Migration to Support Housing Demand

Population growth in Alberta slowed in the second half of 2009 largely due to reduced in-migration from other provinces and a drop-off in non-permanent residents who typically come to the province looking for work. In Edmonton, CMHC estimates that total net migration in 2009 fell by 37 per cent to 12,500 persons, as higher unemployment discouraged new arrivals. Net migration is expected to increase over the forecast period as labour market conditions improve. This will help bolster demand for both ownership and rental housing.

Forecast Summary Edmonton CMA Spring 2010	2007	2008	2009	2010f	% chg	2011f	% chg
Resale Market							
MLS® Sales	20,427	17,369	19,139	19,250	0.6	20,000	3.9
MLS® New Listings	40,708	40,059	30,696	33,000	7.5	34,000	3.0
MLS® Average Price ($)	338,636	332,852	320,378	333,000	3.9	345,000	3.6
New Home Market							
Starts:							
Single-Detached	7,682	2,613	3,897	5,600	43.7	6,600	17.9
Multiples	7,206	4,002	2,420	3,000	24.0	3,700	23.3
Starts - Total	14,888	6,615	6,317	8,600	36.1	10,300	19.8
Average Price ($):							
Single-Detached	438,866	511,989	543,243	485,000	-10.7	505,000	4.1
Median Price ($):							
Single-Detached	409,900	471,850	460,000	420,000	-8.7	440,000	4.8
New Housing Price Index (% chg.)	32.1	1.0	-11.2	0.8	-	3.6	-
Rental Market							
October Vacancy Rate (%)	1.5	2.4	4.5	4.0	-	3.3	-
Two-bedroom Average Rent (October) ($)	958	1,034	1,015	1,000	-	1,030	-
Economic Overview							
Mortgage Rate (1 year) (%)	6.90	6.70	4.02	4.23	-	5.56	-
Mortgage Rate (5 year) (%)	7.07	7.06	5.63	6.20	-	7.06	-
Annual Employment Level	599,100	621,100	617,300	621,800	0.7	634,800	2.1
Employment Growth (%)	6.7	3.7	-0.6	0.7	-	2.1	-
Unemployment rate (%)	3.8	3.7	6.7	6.5	-	6.3	-
Net Migration [1]	17,632	19,822	12,500	13,250	6.0	14,200	7.2

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)

NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

(1) 2009 migration data is forecasted

The forecasts included in this document are based on information available as of April 23, 2010.

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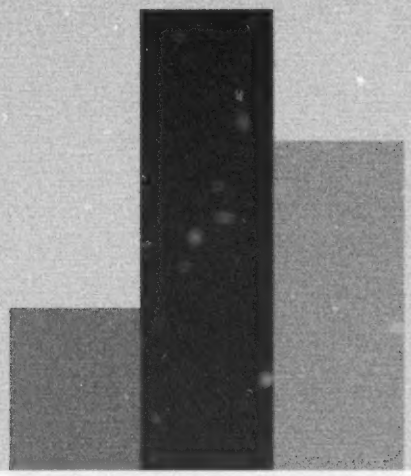

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